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Regional Grain Cooperatives 1960-61

23rd Annual Report

By Daniel H. McVey

Distribution of this report is limited to managers and directors of regional grain cooperatives, banks for cooperatives, extension marketing specialists and agricultural economics personnel in State colleges interested in grain marketing.

Service Report 59

August 1962

FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmers' cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

REGIONAL GRAIN COOPERATIVES
1960-61

By

Daniel H. McVey
Grain Branch
Marketing Division

This report is a part of the annual series started in 1940 on the financial condition and operating results of a group of regional grain cooperatives, continued at their request.

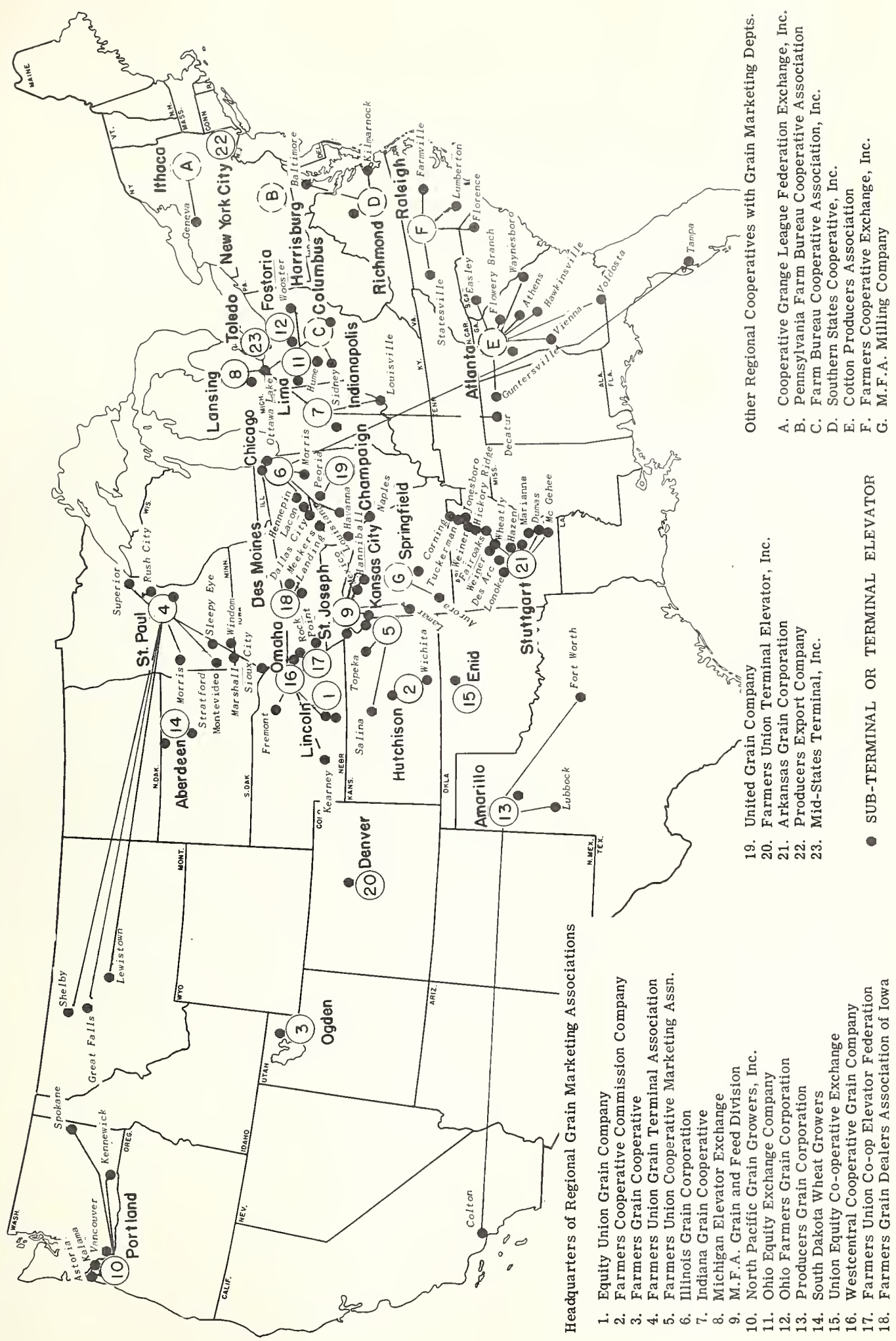
It covers the 1960-61 season and shows some comparisons for the entire period 1938-39 through 1960-61.

Regional grain cooperatives continue to make every effort to meet the demands of their members by conducting up-to-date grain marketing services at subterminal and terminal markets (figure 1). They have rapidly expanded and modernized elevator facilities to handle and store current reserves and carryover stocks and to merchandise member associations' grain. Much of the recent activity has been at strategic river or lake points to take advantage of cheaper water transportation.

With the increased production of livestock in southern and southeastern States, cooperatives are giving more attention to installing storage facilities in these areas to supply grain for feed and to furnish outlets for their own member production.

Regionals have helped members improve their facilities and conduct more efficient grain marketing operations at the local level. Through the National Federation of Grain Cooperatives, grain research programs, advisory committees, radio and television programs, and other media, managements of the regionals are helping all grain farmers.

Figure 1
Location of Regional Grain Marketing Services and Their Sub-terminal and Terminal Elevators, 1962



For several years, some regionals have cosponsored accounting schools for the local elevator bookkeepers where students receive valuable training. Several also have conducted management training conferences, directors' schools, and member relations clinics.

Several regionals have installed milling and baking laboratories to learn more about the product they sell for their members and thus encourage farmers to grow the kind of grain that will sell best.

Many regionals are also working closely with grain improvement associations in developing new varieties so they can advise members on the best types of wheat and other grains to produce. By meeting exact milling specifications and feeding requirements, farmers can expect better returns and more use for their cash grain. Some regionals also pay premiums for approved varieties and protein content.

Some of them are moving into the feed, seed, and farm supply field and others are expanding their services along these lines. Some of the grain regionals have started soybean processing. For example, in 1960, Farmers Union Grain Terminal Association, St. Paul, Minn., acquired Honeymead Products, the largest single soybean processing plant in the country. Last year it acquired the facilities of the Minnesota Linseed Company, one of the largest flaxseed processors in the country. This cooperative has also moved rapidly into feed milling.

Arkansas Grain Corporation, Stuttgart, after 1 year's operation of its new soybean extraction plant, is expanding storage facilities and adding other equipment to further process soybean products. Missouri Farmers Association, Columbia, is greatly expanding its soybean processing capacity at Mexico. Farmers Cooperative Commission Company, Hutchinson, Kans., is installing facilities to process its members' wheat into bulgar.

In another effort to improve the bargaining position of cooperative growers in the marketplace, 19 regionals joined together in 1958 and organized the Producers Export Company with offices in New York City. Membership has grown to 22 regionals (figure 2). In their first 2 1/2 years they exported nearly 100 million bushels of grain valued at about \$175 million to some 25 countries around the world.

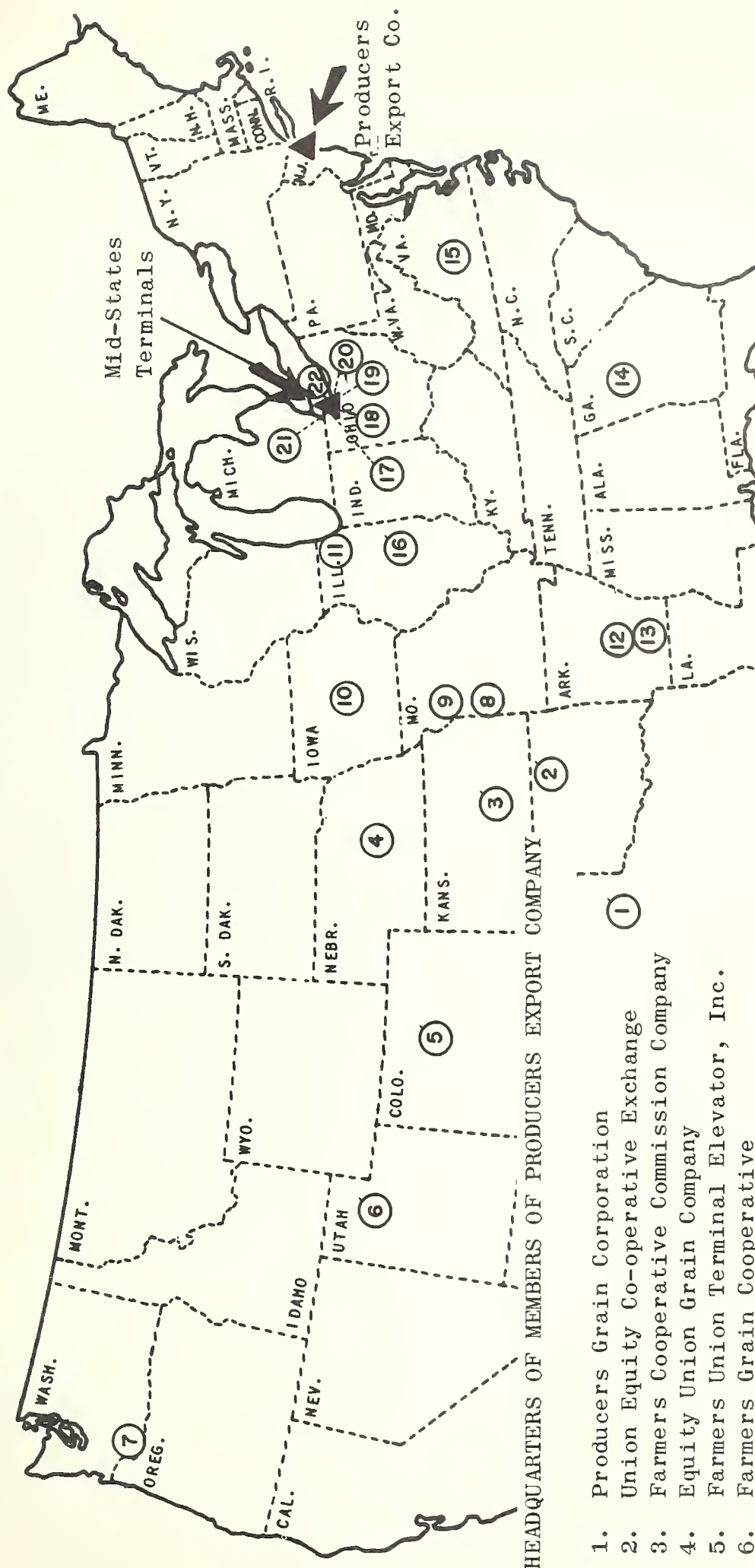
Several members of Producers Export have terminal elevators located on water. North Pacific Grain Growers of Portland, Oreg., entered into a lease agreement with the Port Authority of Kalama, Wash., to construct a large, fast-handling port elevator now in operation. Farmers Union Cooperative Marketing Association, Kansas City, Mo., is operating through its loading facilities on the Missouri River. West Central Grain Cooperative at Omaha, Nebr., and Equity Union Grain Cooperative, Lincoln, Nebr., are also operating through their new river houses. The Missouri Farmers Association, Columbia, has built a river terminal at Kansas City and acquired one at Hannibal, Mo. Farmers Grain Dealers Association, Des Moines, Iowa, has acquired water facilities at Meekers Landing which are being enlarged.

In addition, the five regional organizations in Ohio, Indiana, and Michigan have organized Mid-States Terminals, Inc., with headquarters at Toledo, Ohio, to take advantage of new markets and cheaper transportation rates on the St. Lawrence Seaway. One of these members (all of them are also members of Producers Export) purchased a terminal elevator on the Seaway at Toledo. This facility has been modernized and expanded.

Through actions such as these, the bargaining strength of cooperative elevator patrons is increased.

Figure 2.

HEADQUARTER LOCATIONS OF MEMBERS OF PRODUCERS EXPORT COMPANY AND MID-STATES TERMINALS



1. Producers Grain Corporation
2. Union Equity Co-operative Exchange
3. Farmers Cooperative Commission Company
4. Equity Union Grain Company
5. Farmers Union Terminal Elevator, Inc.
6. Farmers Grain Cooperative
7. North Pacific Grain Growers, Inc.
8. Farmers Union Jobbing Association
9. M.F.A. Grain and Feed Division
10. Farmers Grain Dealers Association of Iowa
11. Illinois Grain Corporation
12. Arkansas Grain Corporation
13. Arkansas Rice Growers Cooperative
14. Cotton Producers Association
15. Southern States Cooperative, Inc.
16. United Grain Company
17. Indiana Grain Cooperative*
18. Ohio Equity Exchange Company*
19. Farm Bureau Cooperative Association*
20. Ohio Farmers Grain Corporation*
21. Michigan Elevator Exchange*
22. Mid-States Terminal, Inc.

* Also members of Mid-States Terminals

Most of the information in this report concerns the 16 regional grain cooperatives on which we have data beginning with their first year of operation in 1938-39. Fourteen other regionals -- 7 farm supply organizations and 7 grain cooperatives -- came into being after that date. A number of the regional farm supply cooperatives have set up grain marketing departments to perform the same functions and services as the grain regionals.

Figure 1 shows the location of the 23 regional grain cooperatives in operation in 1961, and their subterminal and terminal elevators, and the 7 other regional cooperatives with grain marketing departments. These regionals operate elevators at 122 market locations. These do not include commission offices where there are no cooperative facilities. About 37 of these locations handle barge grain and by using water transportation are making significant savings for their members.

The annual reports before 1959 primarily covered data on those 16 associations on which we have records since 1938-39. Since then the reports have been enlarged to include information on additional associations.

Part I shows the data on the 16 organizations and preserves the annual series. Part II contains information on 27 associations for which data are available for the last 3 years. The 27 associations include the 16 discussed in Part I.

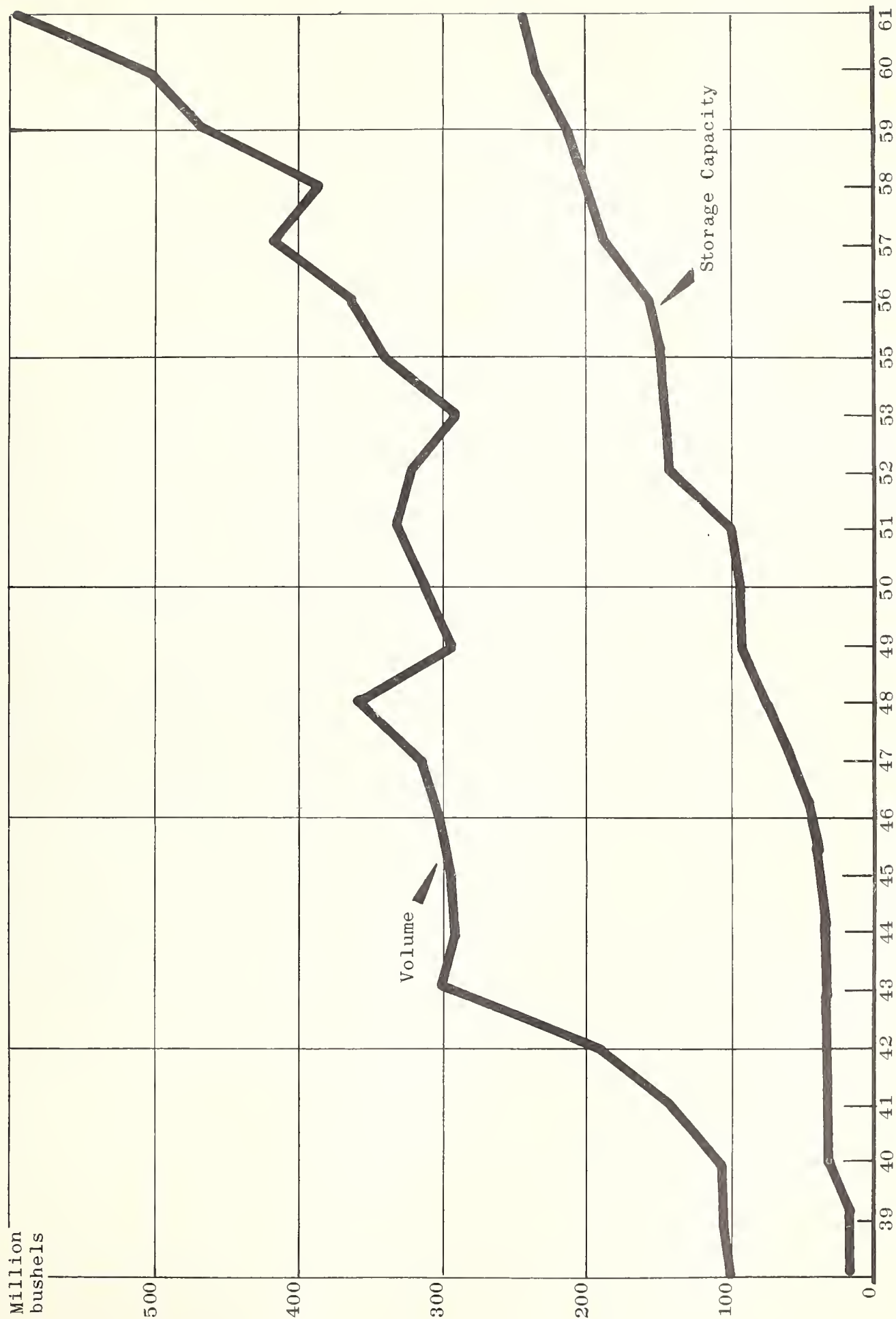
Part I - 16 Regional Grain Cooperatives

These 16 regional grain cooperatives have greatly expanded their storage capacity over the years, particularly since 1953, to meet the needs of members.

Figure 3 shows this expansion. By harvest time of 1962, the regionals will have 241 million bushels of storage compared with less than 20 million

Figure 3

COMBINED VOLUME AND STORAGE CAPACITY OF 16 REGIONAL GRAIN COOPERATIVES,
1938-39 TO 1960-61



in the early years and 35.5 million bushels at the end of World War II. The greatest expansion occurred in 1954 -- 44 million bushels -- but the 28 million bushel expansion in 1958 also stands out. Capacity has considerably more than doubled since 1953. Practically all the space in use is owned, although some Port Authority elevators are operated on a long-term lease basis.

Since 1944, the combined volume of grain marketed by the 16 regionals has seldom been below 300 million bushels a year, with peaks of more than 360 million bushels in 1949 and for each of the last 6 years (figure 3). In 1960-61, volume reached nearly 600 million bushels -- a new record and 18 percent greater than the year before. This is the second consecutive year volume reached a half billion bushel or more.

During the 23-year period beginning with 1938-39, these associations have handled 7.15 billion bushels of grain. In the last 3 years alone, volume amounted to nearly 1.6 billion bushels and about 2.4 billion bushels in the last 5 years. This does not take into account large quantities of grain handled for the Commodity Credit Corporation.

Since regional grain cooperatives began operation, total production of major grains has increased by about 35 percent. The proportion leaving the farm has gone up even faster -- in fact more than doubling in the same period. Even so, the regionals have more than kept the pace. In their first 3 years of operation, they accounted for about 6.5 percent of the grain leaving the farm. Currently they account for about 13 percent. The proportion handled by cooperatives would be higher if C.C.C. volume were included.

When taken as a group, these 16 cooperatives have shown a net margin for each of the 23 years. These margins, both in total and on a bushel

basis, have reflected a general upward trend (figure 4). In the first few years, the combined annual margin was around \$1 million; for the past 4 years, in excess of \$17 million. The record margin reached \$19.5 million in 1958-59. It was down slightly in 1959-60 to \$19.2 million and dropped to \$18.7 million in 1960-61 (table 1).

The net margin in 1960-61 was equal to a return of just over 19 percent on the book value of fixed assets and to 8.5 percent on all assets.

In the very early years, the net margin per bushel handled averaged around 1 cent. There was a gradual increase to around 4 cents a bushel in the period 1953-54 to 1959-60. In 1960-61 the margin declined to 3.13 cents a bushel or 18 percent from the year before, reflecting intense competition and reduced storage rates under the Uniform Grain Storage Agreement.

We can reasonably assume that such margins would not have been realized if handling, merchandising, and storage facilities had not been available (figure 5). Total net margins for the 23-year period were nearly \$226.5 million, with about one-third the amount realized in the last 4 years. The average margin per bushel for the 23 years was 3.17 cents.

As would be expected from the storage capacity and volume data, the combined balance sheet of these organizations has changed greatly over this 23-year period. Current assets in 1939 were \$5.2 million; they have shown almost continual annual growth and reached a record \$111 million in 1961, an increase of 16 percent over the year before (figure 6 and table 2). The value of inventories and other current assets increased significantly while cash declined by about 50 percent.

The net value of fixed assets was less than \$1 million in 1939 and didn't reach \$10 million until 1947. There has been a rapid buildup since

Figure 4

COMBINES NET MARGINS OF 16 REGIONAL GRAIN COOPERATIVES, 1938-39 TO 1960-61

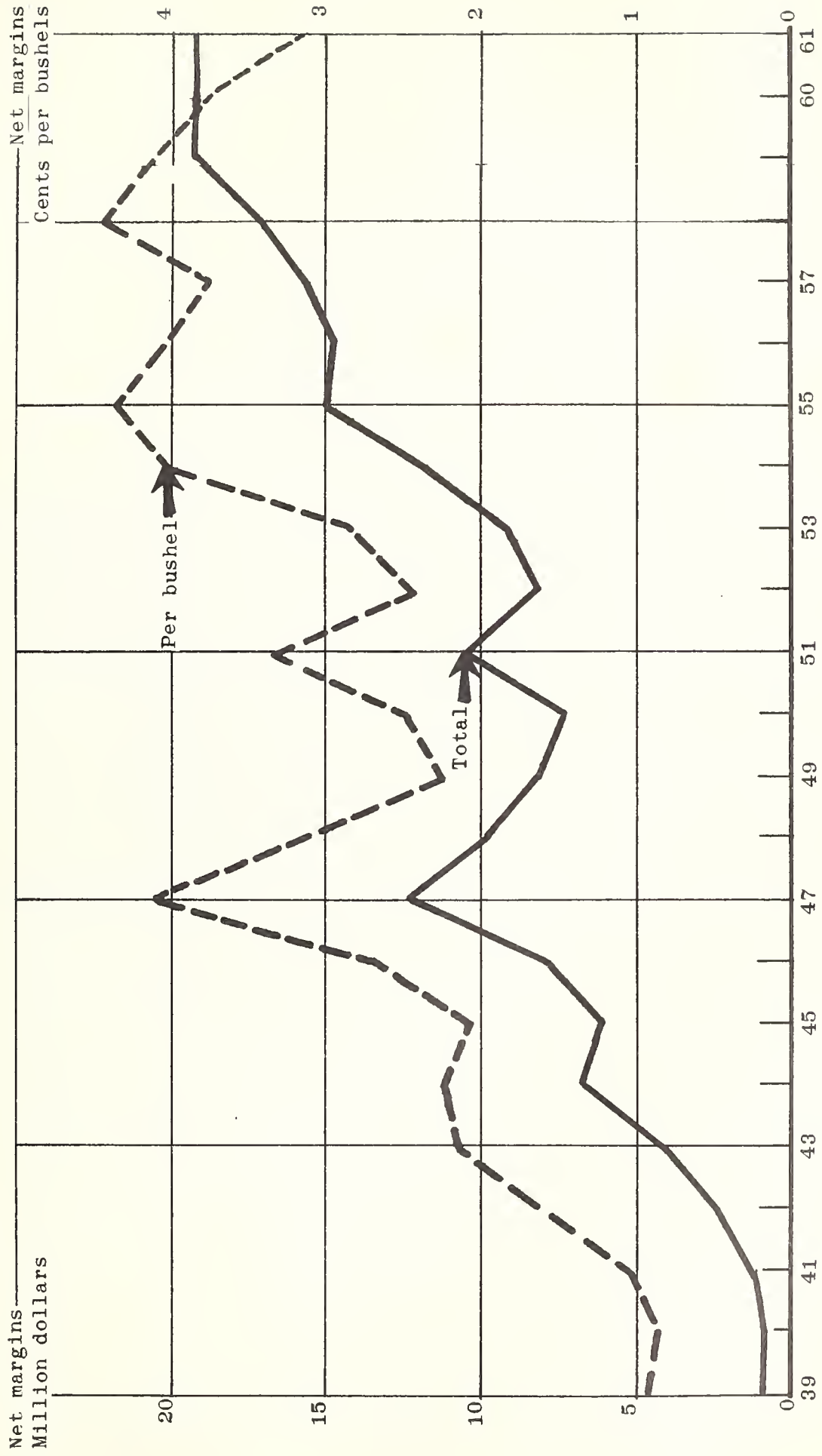


Table 1.--Total grain handled and combined net margins of 16 regional grain cooperatives, 1938-39, 1959-60, and 1960-61

Fiscal year	Volume of grain handled <u>1,000 bushels</u>	Combined net margins <u>1,000 dollars</u>	Net margins per bushel <u>Cents</u>
1938-39	100,123	886	0.89
1959-60	506,694	19,207	3.79
1960-61	598,065	18,711	3.13

Figure 5

COMBINED STORAGE CAPACITY AND NET MARGINS OF 16 REGIONAL GRAIN COOPERATIVES,

1938-39 TO 1960-61

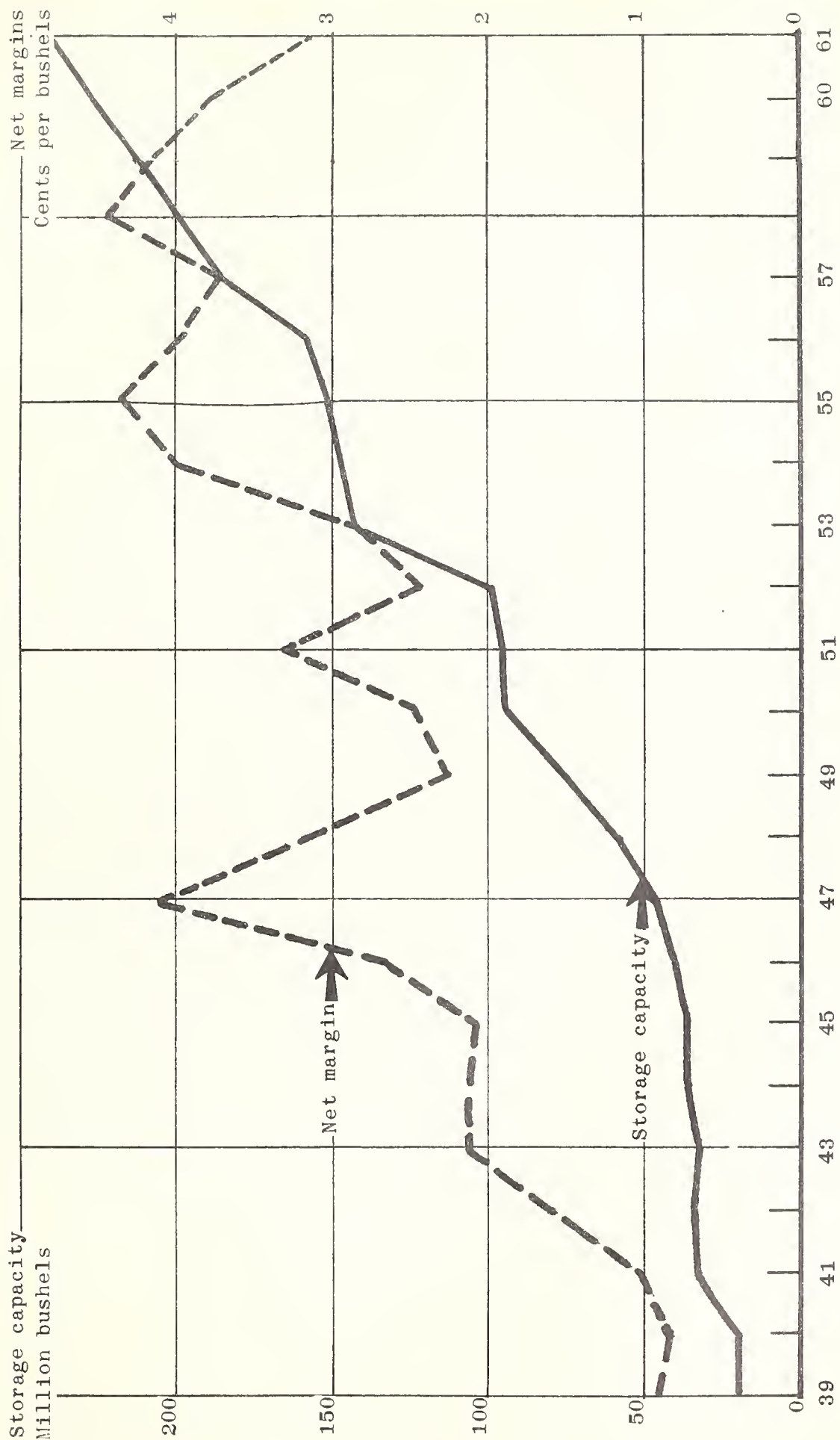


Figure 6

COMBINED ASSETS OF 16 REGIONAL GRAIN COOPERATIVES, 1938-39 TO 1960-61

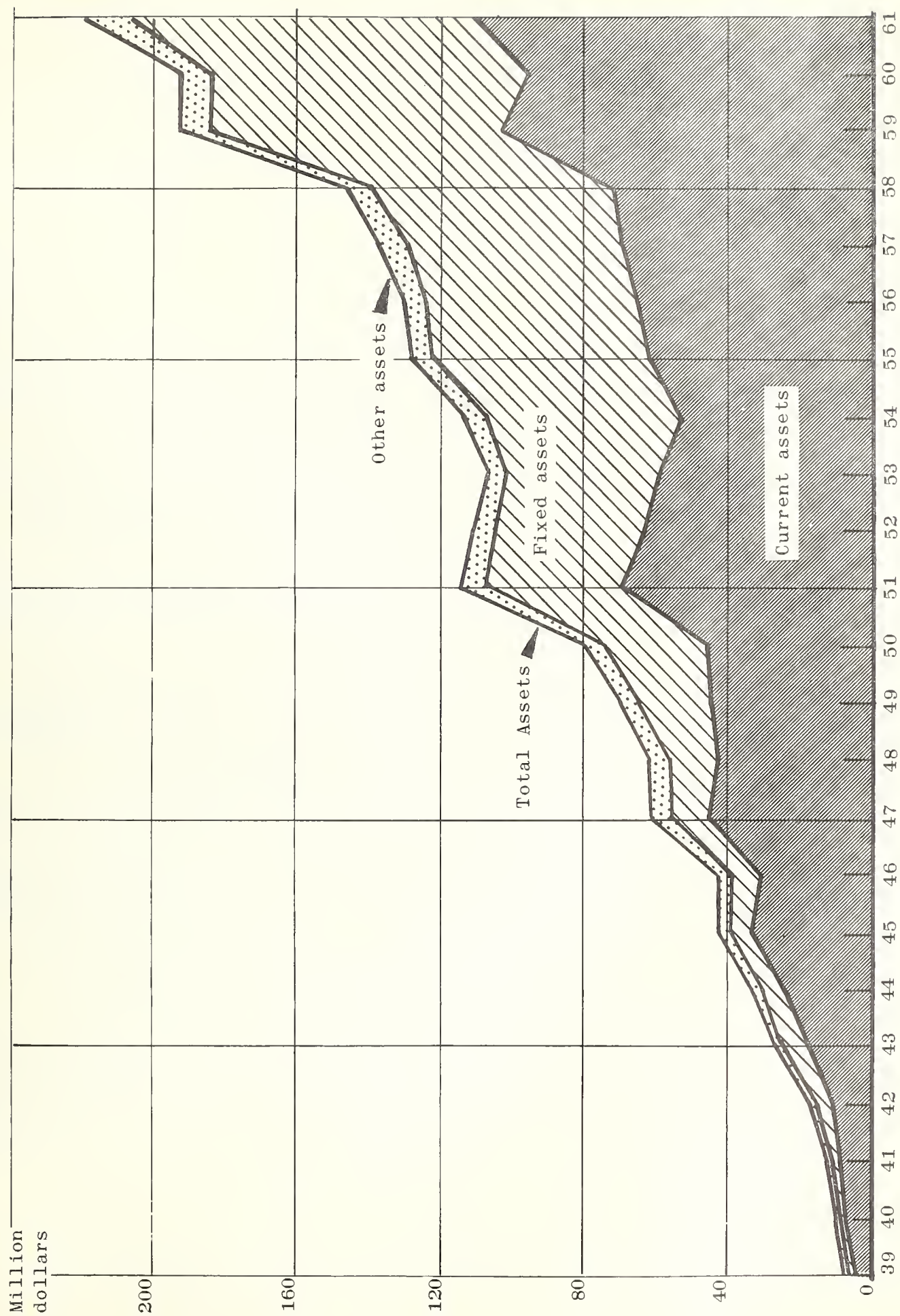


Table 2.--Consolidated balance sheet of 16 regional grain cooperatives at the close of marketing years 1938-39, 1959-60, and 1960-61 ^{1/}

Item	:	:	:
	1938-39	1959-60	1960-61
	:	:	:
		<u>1,000 dollars</u>	
<u>Assets</u>			
Current assets:			
Cash	1,160	17,964	8,705
Inventory	1,117	30,761	47,315
Other current assets	2,970	46,317	54,653
Total current assets	5,247	95,042	110,673
Fixed assets (less depreciation reserve)	930	88,873	96,863
Other assets	466	8,399	12,567
Total assets	6,643	192,314	220,103
<u>Liabilities and member equities</u>			
Liabilities:			
Current ^{2/}	2,443	39,079	51,665
Deferred	1,003	26,013	35,804
Total liabilities	3,446	65,092	87,469
Member equities:			
Certificated capital	1,555	80,795	83,079
Surplus and reserve	1,642	46,427	49,555
Total member equities	3,197	127,227	132,634
Total liabilities and member equities	6,643	192,314	220,103

1/ Closing dates of fiscal years of individual associations vary within the crop year from December 31 to August 31.

2/ Includes some patronage refunds and stock dividends soon to be paid to members.

then, reaching a record \$96.9 million in 1961 -- an increase of \$8 million over the year before. The increase in the last 3 years has been more than \$30 million. Rapid amortization of a number of facilities has held this value down.

Total assets in 1939 were \$6.6 million. These have shown a steady growth, reaching a record \$220 million in 1961 -- an increase of nearly \$28 million over 1960. Five associations had assets in excess of \$14 million each in 1961.

Although large amounts of capital have been used in recent years for expanding facilities, member equities in these 16 regionals have continued to rise. In the 23 years, member equities have risen from \$3.2 million to \$132.6 million and have shown an increase every year (table 2 and figure 7). In the last year they rose by \$5.4 million or 4.2 percent over 1959-60. They have increased \$50 million in the last 5 years and currently are equal to 60 percent of the total asset value.

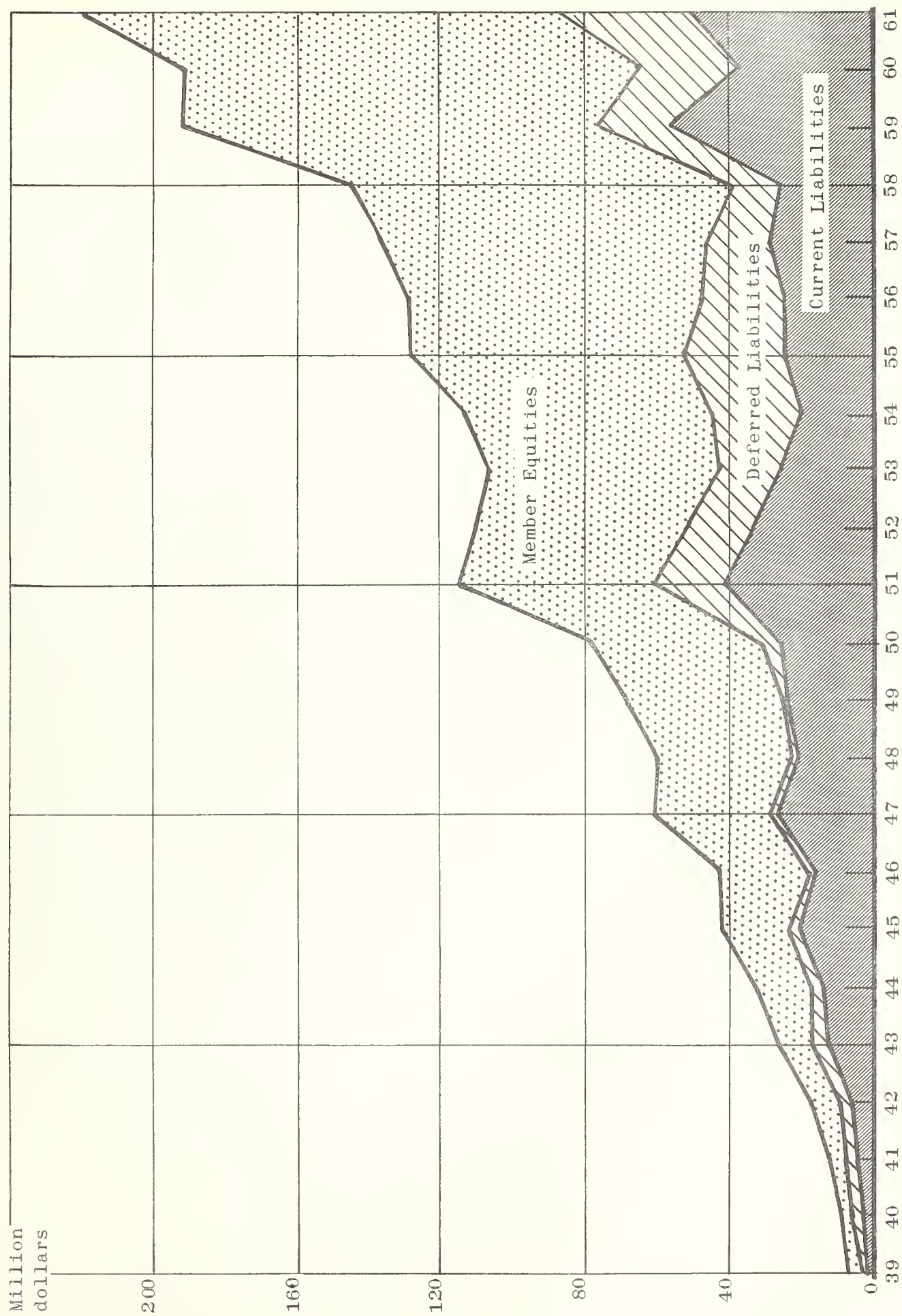
More than \$83 million of the equity is in the form of certificated capital and nearly \$50 million is in surplus and reserves. This latter category has grown rapidly in recent years and in some organizations is equal to the certified capital.

Annual working capital has shown a steady increase from the beginning and amounted to \$59 million in 1961. This may be compared to the \$2.8 million in 1939.

Liabilities increased considerably last year. At \$87.5 million, they were up more than \$22 million from 1959-60. Long-term liabilities have fluctuated considerably over the years but have been higher in recent years due to the accelerated construction program. At the end of 1960-61, they

Figure 7

COMBINED LIABILITIES AND MEMBER EQUITIES OF 16 REGIONAL GRAIN COOPERATIVES,
1938-39 TO 1960-61



amounted to \$35.8 million compared to \$1 million in 1938-39 (figure 7). At the end of 1960-61, deferred liabilities were about 37 percent of the book value of fixed assets.

Much of the recent increase in liabilities has been in the current category. They reached more than \$57 million in 1958-59, declined to \$39 million in 1959-60, but increased to \$51.7 million in 1960-61, due largely to inventory and other current asset increase. Currently they comprise 59 percent of the total liabilities. A portion of these current liabilities were patronage dividend payments and interest on stock which had been declared but not disbursed.

Part II - 27 Regional Grain Cooperatives

As mentioned earlier, several regional grain cooperatives have been organized since 1938, and some regional farm supply cooperatives have added grain marketing departments. Data for 1958-59, 1959-60, and 1960-61 on 11 of these organizations have been combined with the data on the original 16 associations to give a more complete picture of cooperative regional grain marketing.

These 11 organizations have terminal or subterminal elevators at 64 locations with a little over 60 million bushels of storage capacity.

This makes a total of 301 million bushels of storage capacity for the 27 organizations. Thus the capacity per association and per elevator is much greater for the 16 associations than for the 11.

Total assets of the 27 associations in 1961 were about \$272 million, up about \$40 million from the year before. Inventory values were up appreciably. Fixed assets increased from about \$107 million to more than \$117 million (table 3 and figure 8).

Table 3.--Consolidated balance sheet of 27 regional grain cooperatives at the close of marketing years 1958-59 to 1960-61 1/

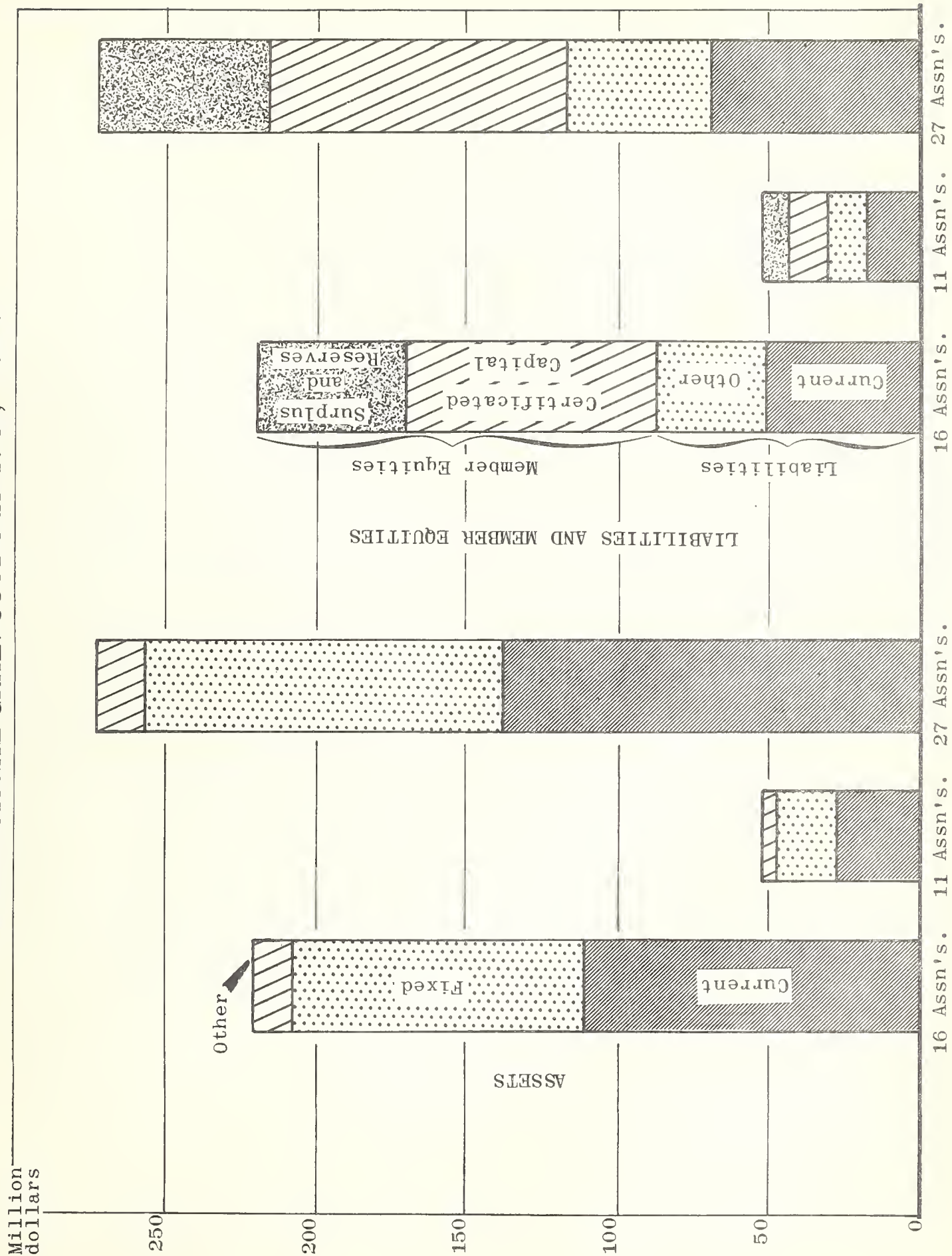
Item	: 1958-59	: 1959-60	: 1960-61
	:	:	:
		<u>1,000 dollars</u>	
<u>Assets</u>			
Current assets:			
Cash	15,240	20,197	9,826
Inventory	53,075	40,053	69,374
Other current assets	60,754	53,825	59,526
Total current assets	129,069	114,075	138,726
Fixed assets (less depreciation reserve)	97,286	106,659	117,361
Other assets	10,094	11,187	16,268
Total assets	236,449	231,921	272,355
<u>Liabilities and member equities</u>			
Liabilities:			
Current <u>2/</u>	71,901	50,260	69,430
Deferred	27,389	35,592	48,421
Total liabilities	99,290	85,852	117,851
Member equities:			
Membership capital	90,306	95,150	97,416
Surplus and reserves	46,853	50,919	57,088
Total member equities	137,159	146,069	154,504
Total liabilities and member equities	236,489	231,921	272,355

1/ Closing dates of fiscal years of individual associations vary within the crop year from December 31 to August 31.

2/ Includes some patronage refunds and stock dividends soon to be paid to members.

Figure 8

COMBINED ASSETS, LIABILITIES AND MEMBER EQUITIES OF 27 REGIONAL GRAIN COOPERATIVES, 1960-61



Liabilities increased by about \$32 million during the year with a good part of the increase in current liabilities. Member equities increased to \$154.5 million from \$146 million in 1960, or almost 7 percent.

The 11 organizations merchandised nearly 124 million bushels of grain in 1960-61, down 9 percent from the volume in 1959-60. However, volume for the 27 associations in 1960-61 was 722 million bushels, or 11 percent greater than 1959-60 (figure 9).

For the first time this year, we obtained volume data by kind of grain. The 27 regional cooperatives handled almost 703 million bushels of the 8 major grains and oilseeds (wheat, corn, oats, barley, soybeans, sorghum, flax, and rye).

Only one organization handled all eight of these grains but six others handled as many as seven grains. Ten organizations handled fewer than 5 grains. This 703 million bushels is equal to 14.9 percent of the total off-farm sales of these grains from the 1960 crop (figure 10). These cooperatives handled 25.3 percent of the flax, 25.1 percent of the wheat, nearly 19 percent of the soybeans, and so on down to a little more than 8 percent of the sorghum.

Some organizations handled other kinds of grain in addition to those enumerated above. Their volume of little over 19 million bushels was composed of beans, peas, rice, millet, and buckwheat. This makes a total volume of slightly over 722 million bushels.

Wheat was, by far, the largest volume grain handled by these cooperatives-- nearly 45 percent of the total (figure 11). Corn was next at 22 percent and soybeans 14 percent. There was considerable difference in kind of grain handled by the original 16 associations and the 11 that were organized later. Location with respect to producing areas is important here.

Figure 9
COMBINED VOLUME, STORAGE CAPACITY, AND NET MARGINS OF 27
REGIONAL GRAIN COOPERATIVES 1959-60 and 1960-61

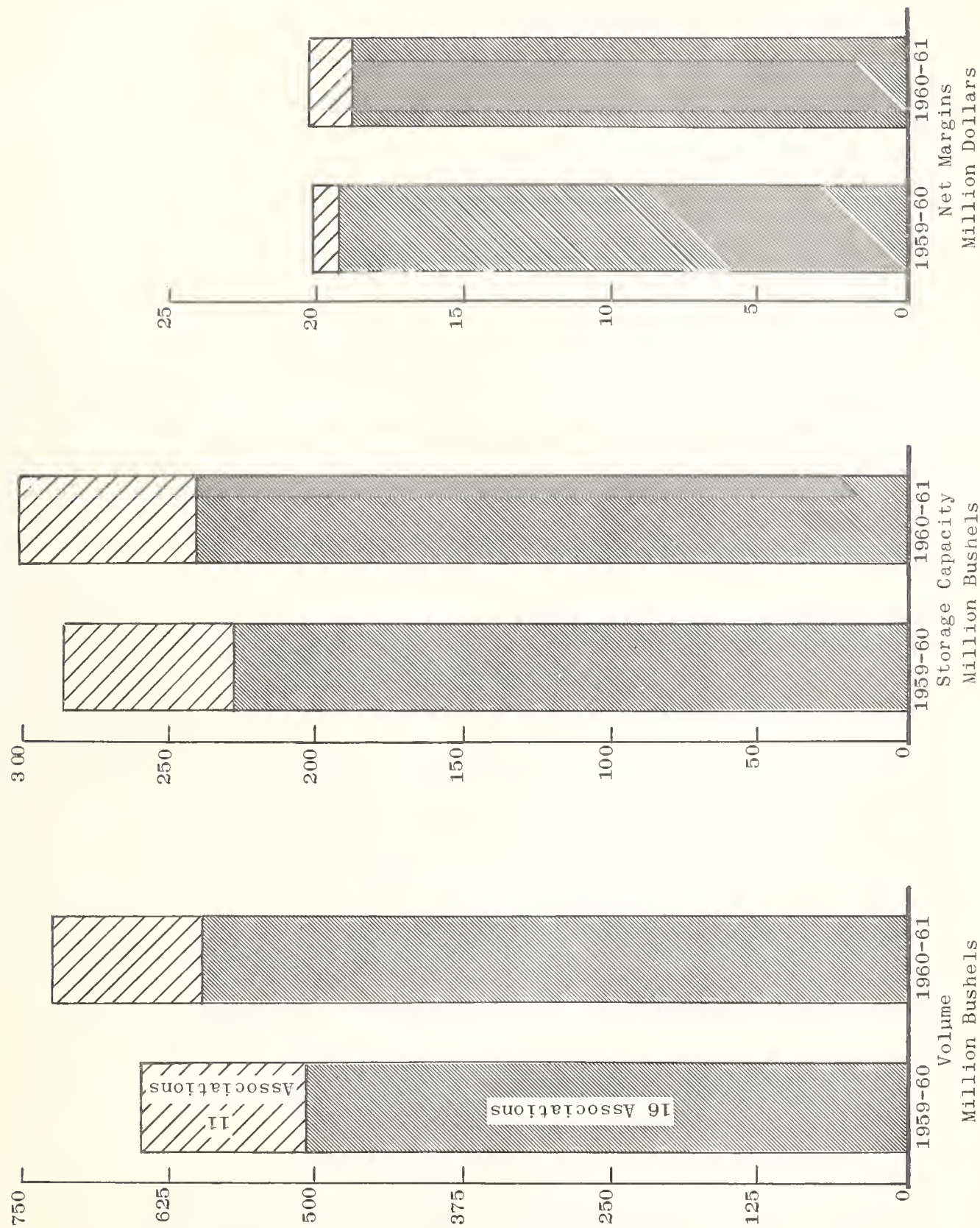


Figure 10

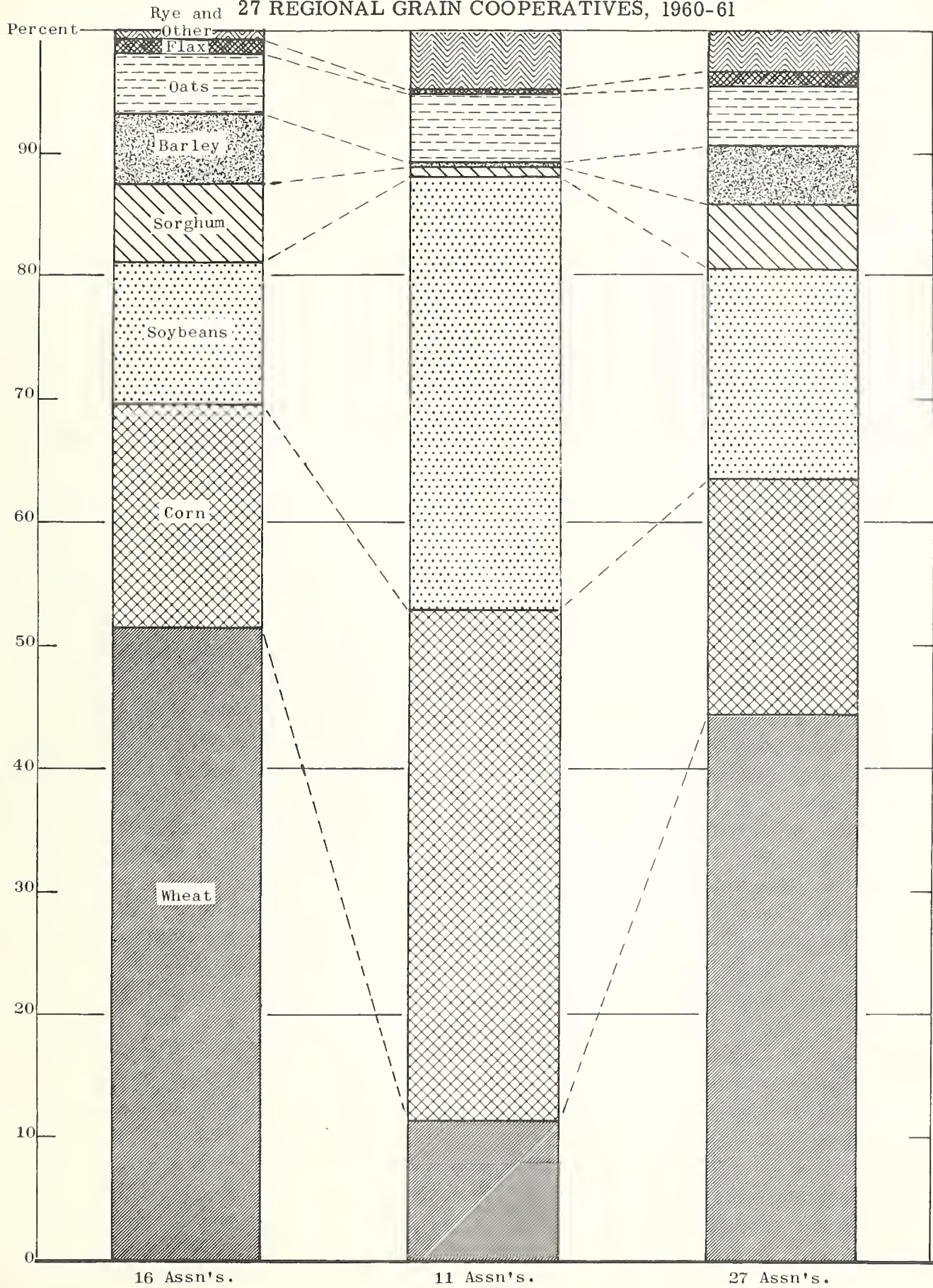
PROPORTION OF TOTAL OF OFF-FARM GRAIN SALES¹ HANDLED BY
27 REGIONAL GRAIN COOPERATIVES, 1960-61 -- PERCENT BY KIND OF GRAIN



¹/ Source: Statistical Reporting Service, Crop Reporting Board, U.S.D.A., Cr. Pr. 1 (62)

Figure 11

KIND OF GRAIN AS A PERCENT OF TOTAL VOLUME HANDLED BY
27 REGIONAL GRAIN COOPERATIVES, 1960-61



Net margins were \$1.5 million for the 11 associations, making a total for the 27 of \$20.2 million or 2.8 cents a bushel in 1960-61, compared to 3.1 cents in 1959-60.

As a group, the regional grain cooperatives have grown rapidly, are in sound financial condition, and operate efficiently. Through these organizations farmers have increased their bargaining strength at the local, terminal, and national levels. Quality has been emphasized by paying premiums for approved varieties and protein content. Marketing margins have been reduced through the competition furnished by these organizations.

Management of these associations still face many important problems. Day-to-day price changes and crop conditions affect operations. Transportation, including the changing rate structure, is vitally important. Government programs and policies and technological changes in farming itself change and affect volume and operations.

Many costs have been rising and do not decline in proportion to volume decreases. This increases unit operating costs. Quality maintenance or improvement is being stressed more and more. New or additional services must be performed to meet member requirements.

The managers and directors of these regionals have demonstrated their ability to deal with problems during the years. The experience gained should enable them to anticipate and meet future problems as they arise.

